Exh. MCC-1T
Docket UG-170929
Witness: Melissa Cheesman

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **CASCADE NATURAL GAS CORPORATION,** **Respondent.**	**DOCKET UG-170929**

TESTIMONY OF

Melissa Cheesman

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Cost of Service
Rate Spread
Rate Design
Load Study
New Tax Law and Current Revenue

February 15, 2018

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Melissa Cheesman. My business address is the Richard Hemstad Building, 1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia, Washington 98504.

Q. By whom are you employed and in what capacity?

A. I am employed by the Washington Utilities and Transportation Commission ("Commission") as a Regulatory Analyst in the Energy Section of the Regulatory Services Division.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since 2012.

Q. Would you please state your educational and professional background?

A. I graduated magna cum laude from Seattle University, Albers School of Business and Economics in 2010, with a Bachelor of Arts in Business Administration with a focus in accounting. In 2012, I earned a Masters of Professional Accounting (MPAC) degree from Seattle University, Albers School of Business and Economics.

In 2013, I attended both the Western NARUC Utility Rate School and the National Association of Water Companies Staff Water Policy Forum. I provided regulatory and accounting guidance in energy dockets UG-170328, UE-170327, UE-160100, UG-151872, and UE-151871.

Q. Have you testified previously before the Commission?

A. Yes. I provided testimony before the Commission in Puget Sound Energy's (PSE) 2017 electric and gas general rate case (Dockets UE-170033 and UG-170034), Avista's 2016 electric and gas general rate cases (Dockets UE-160228 and UG-160229), and several solid waste dockets, which include Dockets TG-130501, TG-130502, and TG-140560. In Docket TG-140560, I testified as Staff's expert witness on rate spread and rate design issues, in addition to the revenue requirement.

II. SCOPE AND SUMMARY OF TESTIMONY

Q. Please explain the purpose of your testimony.

A. My testimony addresses cost of service (COS), rate spread, and rate design issues for Cascade's natural gas service. I respond to Cascade's proposed change to the PGA allocation for pipeline capacity and storage. I also report on Cascade's noncompliance with the load study requirement of the Joint Settlement Agreement in Docket UG-152286. Finally, I provide Staff's recommendation regarding the new tax law and its impact on current revenues.

Q. Have you prepared any exhibits in support of your testimony?

A. Yes. I have prepared the following exhibits:

- MCC-2, Staff Rate Spread
- MCC-3, Revenues and Rates by Detailed Tariff Schedule
- MCC-4, Residential Average Monthly Impact
- MCC-5, Estimated Monthly Billing Impacts
- MCC-6, Cascade's Response to UTC Staff Data Request No. 87
- MCC-7, Cascade's Response to UTC Staff Data Request No. 78
- MCC-8, Cascade's Response to UTC Staff Data Request No. 79

Q. Please summarize your recommendation.

A. In summary, I recommend that the Commission:

<u>Cost of Service Study (COSS)</u>

- Reject the Company's COSS and address the merits of individual COSS methodologies in the ongoing Generic COS proceeding.

<u>Rate Spread</u>

- Reject Cascade's proposed natural gas rate spread.
- Spread Staff's recommended revenue requirement decrease to all customer classes on an equal percentage of margin.

<u>Rate Design</u>

- Reject Cascade's proposed increases to basic charges for all customer classes.
- Reduce rate-class demand-charge volumetric rates based on Staff's proposed rate spread.

- Maintain the status quo for other rates, with the exception of miscellaneous rate changes discussed in Staff Witness Mr. David Panco's testimony.
- Accept Cascade's request to eliminate Tariff Schedules 502, 512, and 577 and merge these customers into Tariff Schedules 503, 504, and 570, respectively.

<u>Purchased Gas Adjustment (PGA)</u>

- Reject Cascade's proposal to change the PGA demand-cost allocation of pipeline capacity and storage based on Design Peak Day.

<u>Load Study</u>

- Determine that Cascade failed to comply with Order 04 in Docket UG-152286 because it did not initiate a load study prior to filing this general rate case.
- Reject Cascade's substitute load forecasting model as an alternative to an actual load study.

<u>New Tax Law Impacts on Current Revenue</u>

- Pass back the over collection[1] of 2018 federal income taxes embedded in current rates

[1] Over collection is the current federal income tax rate of 21 percent minus the prior rate of 35 percent, which is currently embedded in rates today.

III. COST OF SERVICE

Q. What is your recommendation regarding Cascade's COSS?

A. I recommend that the Commission not utilize a COSS to establish rate spread and rate design in this docket. I recommend that the Commission address the merits of various COS methodologies in the ongoing generic proceeding and make no determination regarding Cascade's use of design day in allocating natural gas peaking costs.

Q. Are you presenting an alternative COSS for this case?

A. No. Cascade does not track actual daily therm usage for its core customers. Given the lack of daily data, Staff cannot easily perform a COSS. To do so, Staff would need to create a statistical model to approximate daily peak usage, which would require estimating daily usage from monthly unadjusted billed therms with weather as the daily allocator. Such a method of approximation is no replacement for an actual daily data or load study because a number of assumptions supporting this analysis may not prove true.

Q. Why else is it appropriate to ignore the COSS in this case?

A. After a series of corrections, the Company's model indicates that all classes are within 9 percent of parity. Even if the Commission were to accept the Company's proposed model, Staff's recommendation for an equal percent of margin rate spread would still be the equitable outcome given that little or no cross-class subsidization is currently occurring.

A. Background

Q. What is the purpose of a COSS?

A. A COSS identifies the costs incurred to serve particular classes of customers and provides guidance on spreading revenue requirement amongst customers. Two important results from a COSS inform equitable cost allocation: the revenue-to-cost ratio and the parity ratio[2].

1. The revenue-to-cost ratio shows how much of a class's costs, as identified in the COSS, are recovered with test-year revenues. In other words, the revenue-to-cost ratio describes the relationship between costs and revenues as they exist today. When the revenue-to-cost ratio does not equal one, a subsidy is occurring between customer classes.
2. The parity ratio adjusts the revenue-to-cost ratio to reflect the new proposed revenue requirement. The parity ratio describes the relationships between costs and revenue as they may exist in the rate year. Parity serves as a starting point for assigning class responsibility for any proposed revenue requirement change.

[2] When referring to those ratios collectively, I use the term "parity."

Q. What are the bases of you recommendation?

A. My recommendation is based on applicable Commission precedent as well as the following four key cost causation principles:

1. **Demand and Commodity allocation Factors:** Cost allocations should be driven first by how the system is used, and second by the reason the system was built.
2. **Benefit Follows Burden:** The individuals causing costs should pay for those costs. Additionally, the benefits related to certain costs should flow to those who pay those costs and have the best opportunity of realizing the benefits.
3. **Matching Principle:** Costs should match the period of time over which they occur.
4. **Reduce Cross-Customer Subsidization:** Subsidization of individual customer classes by other customer classes should be reduced or eliminated, unless purposely done to achieve a specific policy purpose.

Q. Does the generic natural gas COS proceeding impact the present case?

A. Yes. The generic COS proceeding is the forum for parties to arrive at an agreed upon set of principles for determining appropriate COSS methodologies. Specific to natural gas operations, a glaring point of contention is the use of a "design-day" to allocate peak costs. The generic proceeding is the best forum for establishing uniform cost of service policies for gas service and resolving COS issues related to the use of design-day.

B. Cascade's COSS Model

Q. Please describe Cascade's COS Study.

A. Beginning with Cascade's proposed Test Year Adjusted Results of Operations, the COSS takes three steps to allocate costs: functionalization, classification, and allocation. Cascade summarizes its COSS results in Exhibit RJA-2; these results include revenue-to-cost and parity ratios that Cascade uses for guidance on rate spread. The Company also populates Exhibit RJA-3 with the COSS results to demonstrate functional rate base, functional revenue requirement and then unit cost for each rate class. These results are used by the Company as guidance for rate design.

Q. Did you ask the Company about design day values used in their COSS?

A. Yes. Cascade acknowledges that the "Current IRP WA Forecast (Dth)" is from the 2016 Integrated Resource Plan (IRP).[3] And Cascade acknowledges that "Washington operations have not experienced a weighted design day level of 52 heating degree days . . . in the last 10 years."[4]

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[3] Cascade's Response to UTC Staff Data Request No. 78.
[4] Cascade's Response to UTC Staff Data Request No. 79.

Q Why are Cascade's responses about design day significant?

A. Cascade is relying on data irrelevant to day-to-day operations of its system. Design day is useful for planning and safety. However, day-to-day operations requires real world data (e.g. actual daily through-put of therms) to reflect real cost causation.

Q. Has the Commission discussed design day previously?

A. Yes. The Commission has provided guidance that the use of design day is not acceptable for allocating peak costs. The Commission explicitly stated:

> The Commission rejects design day as a basis for calculating peak usage. The arguments against it are persuasive: actual use on the design day is unknown and speculative, and the design day fails to consider actual use by all classes on real peak days and thus the classes' actual responsibility for the fixed costs of providing service.

The Commission went on to say:

> The Commission believes that the appropriateness of the design day for planning purposes has no necessary bearing on its appropriateness for cost allocation purposes. The purposes are indeed very different and the selection of an appropriate measure is made in each instance for widely different reasons and policy considerations. The design day should be rejected as a criterion for cost allocation.[5]

Q. Why does Cascade use design day to allocate costs?

A. Cascade bills monthly usage but does not currently have the ability to track and report daily therm consumption by core-classes.[6]

Cascade's ability to track and report daily therm consumption by customer class and by tariff schedule is important because this information is essential in

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[5] *Wash. Utils. & Transp. Comm'n v. Wash. Nat. Gas*, Dockets UG-940034 & UG-940814, Fifth Supplemental Order, at 7 (Apr. 11, 1995).

[6] Core classes are residential, commercial, and industrial customers.

determining the actual responsibility for costs among core customer classes. Without this information, the allocation of costs becomes a speculative exercise rather than an empirical one.

Q. Did the Company provide corrections to its model after filing its case?

A. Yes. In response to UTC Staff Data Request No. 76, the Company provided a correction to two allocations factors, meter installs and regulators.

In response to UTC Staff Data Request Nos. 114 and 115, the Company corrected the factors used to allocate FERC Account 875, Measuring and Regulating Station Expense – General, and FERC Account 889, Maintenance of Measuring and Regulation Station Equipment – General, to the rate classes. The corrections made in response to Staff Data Requests 114 and 115 did not have a material impact on the revenue-to-cost and parity ratios.

Q. What effect did Cascade's update to the metering install and regulators allocators have?

A. These corrections had a material impact on revenue-to-cost and parity ratios. Cascade's corrected COSS indicate that rate classes' revenue-to-cost and parity ratios are within 9 percent of unity (excluding Special Contracts). With these corrections the COSS produced the following revenue-to-cost and parity ratios:

	Total Company	Residential (Sch. 503)	Commercial (Sch. 504)	Industrial (Sch. 505)	Large Volume (Sch. 511)	Interruptible (Sch. 570)	Transport (Sch. 663)	Special Contracts
Revenue-to-Cost	0.97	0.91	1.05	1.04	1.05	1.00	0.95	1.31
Parity	1.00	0.94	1.08	1.07	1.08	1.03	0.98	1.35

Q. Even though Staff does not agree with the use of design-day to allocate peaking costs, what is the importance of Cascade's COSS revenue-to-cost and parity ratios?

A. The Company's corrected COSS demonstrates that all rate classes (excluding Special Contracts) are within 9 percent of unity. This has important implications for the rate spread produced in this case. Parity ratios within 9 percent of unity demonstrate that only a slight degree of cross-class subsidization is occurring, and this cross-class subsidization could be further reduced (or eliminated) by using actual peak data instead of design-day data when allocating costs. This slight degree of rate class subsidization does not necessarily require a rate spread that brings rate classes (excluding Special Contracts) closer to unity.

IV. RATE SPREAD

Q. What is Cascade's proposed rate spread?

A. The Company proposes to spread its proposed additional annual revenue as follows:

- Approximately 78.4 percent of Cascade's revenue increase request would go to Residential Schedule 503.
- Approximately 1.2 percent of Cascade's revenue increase request go to Interruptible Schedules 570/577.
- Approximately 20.4 percent of Cascade's revenue increase request go to Transportation Schedule 663.

Q. What does Staff propose?

A. Staff proposes spreading its proposed revenue requirement decrease to all customer classes, excluding Special Contracts, on an equal percentage of margin. The use of equal percentage of margin is consistent with the recent PSE decision.[7] See Exhibit No. MCC-2 for the calculation and spread of the margin revenue decrease.

Q. What guidance has the Commission provided on parity?

A. The Commission has ruled that a range of 97 to 107 of parity, combined with other factors, does not necessarily require adjustments to reduce subsidization.[8] In fact, in docket UE-100749, the Commission rejected Staff's rate spread and accepted the company's proposal for this precise reason.[9]

Q. What impact does the Commission's guidance have on your recommendation?

A. As discussed above, Staff has not proposed a COSS in this case. While Staff does not support the use of design day, the Company's own corrected COSS produces revenue-to-cost ratios within 9 percent of unity for all core customer classes. There is not sufficient cross-class subsidization occurring to warrant a rate spread that would alter class parity. Thus, an equal percentage of margin decrease to all customer classes is reasonable and will not create greater subsidization between the customer classes.

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[7] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-170033 & UG-170034, Order 08, at 126 ¶ 378 (Dec. 5, 2017).

[8] *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-100749, Order 06, at 109 ¶¶ 315-16 (Mar. 25, 2011).

[9] *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-100749, Order 06, at 109 ¶ 317 (Mar. 25, 2011).

V. RATE DESIGN

Q. What is Cascade's proposed rate design?

A. Cascade made several proposals. The Company requested to increase its basic charges as follows:

Rate Class	Current Basic Charge	Company Proposed Increase	Percentage Change	Company's Proposed Basic Charge
Residential Service	$4.00	$2.00	50.00 %	$6.00
General Commercial Service	$10.00	$5.00	50.00 %	$15.00
General Industrial Service	$48.00	$27.00	56.25 %	$75.00
Large Volume General Service	$100.00	$100.00	100.00 %	$200.00
Interruptible Service	$130.00	$370.00	284.62 %	$500.00
Distribution System Transportation Service	$500.00	$250.00	50.00 %	$750.00

Cascade also requests changes to its Delivery Charge (volumetric) rates:

Rate Class	Current Rate	Company Proposed Rate	Change	Percentage
Residential - 503				
Delivery Charge	$0.29484	$0.30446	$0.0096	3.3%
Commercial - 504				
Delivery Charge	$0.24608	$0.23313	-$0.0130	-5.3%
Industrial - 505				
Delivery Charge - first 500 therms	$0.18843	$0.17779	-$0.0106	-5.6%
Delivery Charge - next 3,500 therms	$0.15175	$0.14399	-$0.0078	-5.1%
Delivery Charge – over 4,000 therms	$0.14620	$0.13888	-$0.0073	-5.0%

Rate Class	Current Rate	Company Proposed Rate	Change	Percentage
Large Volume - 511				
Delivery Charge - first 20,000 therms	$0.14834	$0.14028	-$0.0081	-5.4%
Delivery Charge - next 80,000 therms	$0.11295	$0.10753	-$0.0054	-4.8%
Delivery Charge - over 100,000 therms	$0.02541	$0.02652	$0.0011	4.4%
Interruptible - 570				
Delivery Charge - first 30,000 therms	$0.08233	$0.09426	$0.0119	14.5%
Delivery Charge - over 30,000 therms	$0.02251	$0.02684	$0.0043	19.2%
Transport - 663				
Delivery Charge - first 100,000 therms	$0.05730	$0.05970	$0.0024	4.2%
Delivery Charge - next 200,000 therms	$0.02023	$0.02179	$0.0016	7.7%
Delivery Charge - next 200,000 therms	$0.01187	$0.01324	$0.0014	11.5%
Delivery Charge - over 500,000 therms	$0.00508	$0.00629	$0.0012	23.8%
Contract Demand	$0.20	$0.22	$0.0200	10.0%

The Company is also requesting a $0.02 (or 10 percent) increase the Schedule 663, Contract Demand Charge of $0.20 to $0.22.

Q. Does Staff support increases to basic charges?

A. No. Staff recommends that basic charges remain unchanged because Staff is recommending a revenue decrease. Maintaining the basic charges also provides rate stability to both ratepayers and the Company. Further, in Cascade's recent 2015 general rate case the Company requested to hold basic charges constant.[10] Cascade advocated to continue using a low bacis charge and volumetric heavy rate design.

Q. What does Staff propose with regard Demand Charge volumetric rates?

A. Staff recommends a reduction to margin volumetric rates for Residential Service (Tariff Schedule 503), General Commercial Service (Tariff Schedule 504), General Industrial Service (Tariff Schedule 505), Large Volume General Service (Tariff Schedule 511), Interruptible Service (Tariff Schedules 570), and Distribution System Transportation Service (Tariff Schedule 663). Please see Exhibit No. MCC-3 for Staff's proposed changes.

Q. Does Staff support any changes to other rates?

A. Yes. Please see Staff Witness Mr. David Panco's testimony regarding miscellaneous rate changes related to disconnection, reconnection, new premises, returned check, and pilot light service rates.

Q. Does Cascade propose eliminating any tariffs?

A. Yes, three of them. First, Cascade proposes eliminating Tariff Schedule 502, Building Construction Temporary Heating and Dry-Out Service, and merging those customers into the Residential Service Schedule (Tariff Schedule 503).

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[10] UG-152286, MPP-1T, at 7:12-24.

Second, Cascade is proposing to eliminate Tariff Schedule 512, Compressed Natural Gas Service, and merging those customers into the General Commercial Service Schedule (Tariff Schedule 504).

Finally, Cascade proposes eliminating Tariff Schedule 577, Limited Interruptible Service, and merging those customers into the Interruptible Service Schedule (Tariff Schedule 570).

Q. Does Staff oppose the Company's request to eliminate Tariff Schedules 502, 512, and 577 and merge these customers into Tariff Schedules 503, 504, and 570, respectively?

A. No. Please refer to Staff Witness Mr. David Panco's testimony for Staff's opinions on the elimination of these schedules.

VI. PGA

Q. What is Cascade's proposal with regard to the PGA?

A. The Company proposes allocating year-round pipeline capacity costs within the PGA as 10.8 percent to Annual Sales Volumes, 24.2 percent to Winter Sales Volumes and 65.1 percent to Design Peak Volumes. The Company's witness, Mr. Ronald Amen further recommends allocating the 80 percent of Jackson Prairie and its related TF-2 capacity that is not allocated to system balancing in the PGA as follows: 11.4 percent to Winter Sales and 68.6 percent to Design Peak Day.[11]

[11] For the Company's requested cost allocation, see RJA-7 at 1:16-30.

Q. Should the Commission accept the Company's proposal?

A. No. As previously discussed, Staff disagrees with the use of Design Peak Day, and the Commission has rejected its use. The design peak day is an artificial, hypothetical cold day inserted into the IRP analysis for forecast planning. Design Peak Day is not meant to allocate costs for ratemaking. The Commission should order Cascade to not change the PGA allocations until it has completed a load study supporting such changes.

VII. LOAD STUDY

Q. Did the Joint Settlement Agreement in Docket UG-152286 require a load study?

A. Yes. As a party to the Joint Settlement Agreement, Cascade agreed to initiate a load study with the following conditions:

1. The purpose of this study is to determine the class core responsibilities of daily therms at the city gates;
2. It must include an accurate calculation and a report of unbilled revenues by revenue type unless actual usage data is collected and used;
3. It must sample the constituents of the Company's core usage classes in a manner that captures their geographic properties in a representative way; and

4. It must include work papers demonstrating the daily volumes at each of the Washington system's city gates.[12]

Q. Did the Commission accept the terms of the Joint Settlement Agreement?

A. Yes.

Q. What is a load study?

A. According to NAURC, a load research study (or load study) requires sampling of customers in those rate classes where it is too expensive to have time-recording meters on all customers. The collected load data is then used to determine the demand costs responsibility of the rate classes.[13]

Q. What is the definition of the word "initiate"?

A. Merriam-Webster defines initiate as:

1. to cause or facilitate the beginning of : set going, initiate a program of reform, enzymes that initiate fermentation
2. to induct into membership by or as if by special rites
3. to instruct in the rudiments or principles of something.[14]

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[12] *Wash. Utils. & Transp. Comm'n v. Cascade Nat. Gas Corp.*, Docket UG-152286, Joint Settlement Agreement, at 15 ¶ 46 (May 13, 2016).
[13] National Association of Regulatory Utility Commissioners, ELECTRIC UTILITY COST ALLOCATION MANUAL, Appendix A, pages 166-181.
[14] *Available at* https://www.merriam-webster.com/dictionary/initiate (last accessed on February 6, 2018).

Q. Which of the above definitions applies to the plain reading of the Joint Settlement Agreement?

A. The first above definition, "to cause or facilitate the beginning of: set going, initiate a program of reform, enzymes that initiate fermentation."

Q. Did the Company "initiate" a load study prior to filing this general rate case?

A. No.

Q. What was the Company's claim about starting a load study?

A. Cascade stated that, "The Company was only required to initiate a load study for this rate case. To initiate the logger/meters analysis the company started with discussions with other LDCs. Conversations with Puget Sound Energy lead us to believe it would be cost-prohibitive at this time based on LDCs like NW Natural and PSE having more urban profiles vs our more rural profile."[15]

Q. In this context does the Company use the word "initiate" correctly?

A. No. Discussions about load studies with other LDC's does not cause or facilitate the beginning of a load study. The Company only talked about load studies. At a minimum, initiating a load study would require a request for proposals and or signed logger/meters lease contract(s). Less generously to Cascade, initiating a load study would have required Cascade to be in the initial stages of randomly selecting customers and installing logger/meters by the time they filed this general rate case.

[15] Response to UTC Staff Data Request No. 87 in Exhibit MCC-6.

In the context of the settlement agreement language and the Commission's order, "initiate" appears to mean that the Company must have begun to collect data by the time they filed their next rate case (i.e., this one).

Q. What impact does this have on future settlements?

A. The Company has not complied with the Commission's order or the settlement. This has a chilling effect on future settlements. Parties will have little assurance that the Company will follow through with its commitments in the future. Further, Cascade filing a general rate case before initiating a load study violates the Commission order and the settlement agreement.

Q. What else did the Company state in its response to UTC Staff Data Request 87?

A. Cascade further states that, "The Company discussed with WUTC Staff about using the forecast model to create a load study which would determine the class core responsibilities for the amount of gas that the Company distributes on a daily basis to each local service area. As indicated in WUTC-62 response the load study will not be completed until April 30, 2018. The forecast model used in the 2016 Washington IRP has been provided in response to WUTC-78."

Q. Is a forecasting model a load study?

A. No. A forecasting model is a tool used to forecast usage *based on a load study*. It cannot be used the other-way-around.

Q. Has Cascade complied with the Commission's order accepting without condition the Joint Settlement Agreement regarding the Load Study?

A. No.

Q. What does Staff want the Commission to do about Cascade's noncompliance?

A. Staff requests that the Commission order Cascade to comply with the settlement commitment requiring it to initiate a load study. Further, Staff requests that the Commission add a new condition. If Cascade does not complete a load study prior to filing its next general rate case, then the Commission should forbid the Company from increasing any basic charges and also require it to present a rate spread that applies an equal percentage of margin increase or decrease to each schedule, except for Special Contracts, in that general rate case.

Staff also requests to modify the above approved settlement terms to the load study requirements. Instead Staff requests the following load study conditions:

1. The purpose of this study is to determine the actual class core responsibilities of daily therms and identify daily temperatures;
2. Load study must sample the constituents of the Company's core usage classes in a manner that captures their geographic properties and characteristics in a representative way;
3. Load study must include workpapers demonstrating the daily volumes system-wide and for each of the Company's Washington service territories; and

4. A load forecast or a forecast model is not sufficient to comply with the above conditions.

VIII. NEW TAX LAW AND CURRENT REVENUES

Q. Please explain the issue of the over-collection of 2018 federal income taxes embedded in current rates.

A. On January 1, 2018, the effective federal income tax (FIT) rate was reduced from 35 percent to 21 percent. While January 1, 2018, is the effective date for the new tax laws, August 1, 2018 is the statutory effective date for this rate case. Cascade's current gas rates, in effect from January 1, 2018, through July 31, 2018, are based on the tax rate of 35 percent. Cascade will thus over collect from January 1, 2018, until July 31, 2018.

This seven month over-collection of taxes is owed back to ratepayers and should be refunded. Cascade should be indifferent to this reduction because the Company's federal tax obligations will also go down.

Q. Is it possible to correctly establish the over-collection of taxes in current rates at this time?

A. No. There are too many nuances in the New Tax Law to precisely determine a final reduction at this time.

Q. What is Staff's overall recommendation for addressing the impacts of the New Tax Law as it relates to currently effective rates?

A. Staff recommends that the Commission expressly order the Company to pass back all over-collected 2018 taxes embedded in current rates to customers.

Q. How does Staff propose that the Commission address the return of over-collected 2018 taxes in this GRC?

A. The Commission should clearly state that Cascade is required to pass through any over collected taxes to ratepayers. The methodology for exactly how the Company should calculate and refund the over collection may or may not be possible to accomplish in this rate case. If specifics do become clear and can be ordered in this case, Staff would support resolving the specific accounting methodologies in this case.

Q. Why are the specific accounting measures and methodologies not currently clear?

A. Cascade has not yet provided an analysis that demonstrates the amount of taxes collected at 35 percent and embedded in current rates for the period of January 1, 2018 to July 31, 2018. The amount of taxes customers ultimately will have overpaid will not be known until the Company completes such an analysis, which could be after new rates become effective on August 1, 2018, or perhaps even until the calendar year is over. Staff anticipates the parties will discuss options in a technical conference in the coming weeks, and Staff is optimistic that the parties will reach a consensus on the appropriate level of over-collected taxes to return to customers and the appropriate mechanism through which to pass those dollars back. If an agreement is reached and can be presented to the Commission in a separate submission in this docket, then that agreement may be implemented on August 1.

Q. Has Staff completed its review of Cascade's proposed treatment of current revenues?

A. No. The Company provided its supplemental response to Bench Request 1 on January 29, 2018. During the time between January 29 and February 15, 2018, Staff was either preparing for settlement or preparing testimony. Cascade's supplemental response is also materially different from the Company's first response, provided January 12, 2018, to the Commission's Bench Request 1 and there is some uncertainty around the Company's attempts to quantify the impacts of the new tax law. Because of this uncertainty, all parties require additional time to complete a thorough review. Responding parties would need at least four weeks from the date of filing testimony to review, analyze, and provide a recommendation for the Commission.

Q. Has Cascade filed an accounting petition to defer the return of accumulated over-collection of 2018 taxes, protected EDIT, and the unprotected EDIT?

A. No. At Staff's suggestion, Cascade waited until the Commission issued a bench request. The Commission may order deferrals of costs or revenues in the context of a general rate case.

Q. Does this conclude your testimony?

A. Yes.